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TO RUEHC/SECSTATE WASHDC IMMEDIATE 1397  
INFO RUEHZA/WHA CENTRAL AMERICAN COLLECTIVE IMMEDIATE  
RUCPDOC/DEPT OF COMMERCE WASHDC IMMEDIATE  
RUEATRS/DEPT OF TREASURY WASHDC IMMEDIATE  
RHEBAAA/DEPT OF ENERGY WASHDC IMMEDIATE  
RUMIAAA/USSTOUCOM MIAMI FL IMMEDIATE  
RUEHLMC/MILLENNIUM CHALLENGE CORP WASHINGTON DC IMMEDIATE 1293  
RUEAORC/US CUSTOMS AND BORDER WASHDC IMMEDIATE

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TAGS: ECON EINV ENRG EPET ETRD HO

SUBJECT: PARTIAL CHANGE TO FUEL PRICING FORMULA

REF: A. TEGUCIGALPA 1285  
1B. TEGUCIGALPA 466  
1C. TEGUCIGALPA 357  
1D. 08 TEGUCIGALPA 526  
1E. 06 TEGUCIGALPA 2309

11. (U) Summary: The de facto regime has updated the pricing formula for gasoline, removing a restriction that pegged the price of premium gas to the price of regular. This is seen as a partial victory by fuel importers, but as a potential burden by consumers. Since this modification does not address all the concerns of fuel importers, the administration of president-elect Porfirio "Pepe" Lobo, which takes office on January 27, may be asked by importers to make additional changes to the formula. End summary.

12. (U) The Council of Ministers of the de facto regime has modified part of the formula used to set fuel prices. Previously, the wholesale price of premium gasoline was required to be the same as regular. As this pricing formula did not reflect market realities, fuel importers complained that they were losing money selling premium gasoline in Honduras (see reftel). The new rule, which went into effect December 16, but which was only recently publicized in the media, ties the price more directly to U.S. Gulf Coast prices. Specifically, the Free On Board reference price is set at the average of 22 days of the mean prices published daily by Platts for waterborne Gulf Coast markets for non-supplemental unleaded 93 gasoline and non-supplemental unleaded 87 gasoline, using the formula: Unleaded 87 plus ((unleaded 93 minus unleaded 87) times 0.58).

13. (SBU) Daniel Mencia of ExxonMobil considers this executive decree to be a "partial correction" because it removes the restriction on the price of premium gasoline, but does not address the issues of freight costs or adjusting the volume based on 60 degrees instead of the ambient temperature. Mencia told EconOff that there is still more work to be done on those issues. The decree enacting the new rule does, however, give retailers a slightly higher margin for premium gasoline.

14. (U) Because the wholesale price for premium gasoline is no longer fixed to that of regular, and because retailer margin is increased, this change in the formula will cause prices for premium to rise at the pump. Social activist Juliette Handal, who is the coordinator of an umbrella group, the "Patriotic Coalition of Solidarity" and a key supporter of the original price formula set by President Jose Manuel "Mel" Zelaya (reftel E), decries this change as a burden on consumers and an act of bad faith on the part of the de facto regime. But Mario del Cid, executive director of the Honduran Petroleum Industry Council (Cohpetrol), predicts that price increases will only be about two and a half cents

per gallon as a direct result of this change.

¶5. (SBU) Comment: This change to the pricing formula has been long awaited by gasoline importers. Coming before the inauguration of president-elect Lobo, it initially takes the heat off him to implement a change that may prove unpopular with consumers, even though its intent is to ensure that the fuel companies can continue to import premium gasoline at sustainable prices. This change is an important step, but since it fails to address all of the gasoline importers' concerns, Lobo may still come under pressure to further revise the pricing formula during 2010. End comment.

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